

NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF THE INSPECTOR GENERAL

REPORT TO CONGRESS

OCTOBER 1, 1996 - MARCH 31, 1997

THE NCUA MISSION

**TO ENSURE THE SAFETY AND SOUNDNESS OF CREDIT UNIONS
BY PROVIDING APPROPRIATE REGULATION AND SUPERVISION,
WHILE EFFECTIVELY MANAGING THE AGENCY'S RESOURCES
AND THE SHARE INSURANCE FUND**

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THE OFFICE OF INSPECTOR GENERAL MISSION

**TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS
IN NCUA PROGRAMS AND OPERATIONS,
AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE**

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OFFICE OF INSPECTOR GENERAL NATIONAL CREDIT UNION ADMINISTRATION

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INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS

The credit union industry remains healthy according to end-of-year data collected by the NCUA. Members and assets have grown steadily. The National Credit Union Share Insurance Fund (NCUSIF) is sound and has not yet had to add to its reserve for potential losses. The Fund paid out \$103 million in dividends for the second consecutive year. The Fund's 1.3% equity level ending in 1996 made it the best year in the Fund's history. Only 19 credit unions failed in 1996, marking the smallest number of closures since the mid-1970's.

Nevertheless, as noted in our last report, the Field of Membership (FOM) litigation continues to be a pressing concern to the agency. This is because of its potential threat to the continued health of the credit union industry and its ability to expand credit union service to persons of small means--the original Congressional purpose for establishing the system of Federal credit unions. The Supreme Court has agreed to hear the NCUA's appeal of the D.C. Circuit's approval of the October 25, 1996, injunction issued by the U.S. District Court for the District of Columbia against NCUA and other defendants in two consolidated cases involving NCUA's interpretation of its FOM policy. It is not likely that the Court will hear argument before Fall 1997. In the meantime, the U.S. Court of Appeals for the District of Columbia Circuit granted a partial stay of the D.C. District Court's nationwide injunction pending a decision by the Supreme Court. Accordingly, Federal credit unions may add new members from existing membership groups, but are barred from adding select employee groups not tied to their core membership. The agency has moved for a complete stay pending the Supreme Court's decision. To date, one remedial bill has been introduced into the House of Representatives to amend the Federal Credit Union Act. It would revise the legislation to ratify the NCUA's interpretation of its FOM provisions. NCUA supports the legislation.

In accordance with the requirements of the Government Performance and Results Act (GPRA), the agency has developed a draft Strategic Plan and Annual Performance Plan for 1997-1999, both of which have been presented to the NCUA Board for review and comment. After the Board approval of the draft Strategic Plan, it will be distributed to stakeholders for comments due on May 15, 1997. Consultation with Congressional committees is also planned for later this spring and summer. Agency officials plan to determine the results of the application of strategic performance measures from January through September 1997 and perform self-evaluations by the end of the year.

Another major agency initiative, the enhancement of credit union service to citizens in underserved communities, is fostered by the Office of Community Development Credit Unions (OCDCU). The NCUA Board approved an interim final rule that will authorize low income credit unions to boost capital levels and is considering a plan to eliminate the ceiling on technical assistance grants. The OCDCU has also joined with the Department of Housing and Urban Development (HUD) to launch a pilot program to charter on-site community development credit unions in public housing. For later this year, I have tentatively scheduled an audit of NCUA's activities in this area.

AUDIT HIGHLIGHTS

Under contract with the Office of Inspector General, our independent auditors, Deloitte and Touche, expressed unqualified opinions on the agency's financial statements, reporting that they presented fairly NCUA's financial position as of December 31, 1996. The firm also reviewed the internal control structure and evaluated its compliance with laws and regulations. OIG auditors oversaw the audit, which included the agency's four funds: the National Credit Union Share Insurance Fund (NCUSIF); the National Credit Union Administration Operating Fund; the Central Liquidity Facility; and the Community Development Revolving Loan Fund.

OIG auditors completed a peer review of the Security and Exchange Commission (SEC) Office of Inspector General audit operations. The Federal Housing Finance Board (FHFB) OIG completed a peer review of our audit operations and determined that they complied with Government Auditing Standards. The FHFB issued its report on March 31, 1997.

OIG audits of the agency's processes for procurement of goods and services, and of credit union examination flexibility have been substantially completed with the reports currently being drafted.

INVESTIGATIVE HIGHLIGHTS

During the reporting period, this office closed eight investigative matters. We issued three investigative reports, two of which made no formal recommendations; one of which is still pending management's response. In addition, we issued a pro-active inspection report on the Central Office Security Files, which included four recommendations, all of which the agency agreed to implement.

FUTURE PLANS

In the next reporting period, we will finalize our reports on procurement and credit union examination flexibility. We will perform a review of employee training and development and of the ongoing efforts associated with expanding credit union benefits to the underserved. We will continue to monitor the agency's preparation for strategic and financial plans required by the GPRA. After completion of the agency's strategic plan, we will revise our current OIG strategic plan based on the agency's proposed initiatives.

In the investigative arena, we expect to initiate a pro-active investigation of the Federal Employee Compensation Act payments made by the agency.

Frank Thomas
Inspector General

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NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of December 1996, the NCUA was supervising and insuring 7,152 Federal credit unions and insuring 4,240 state-chartered credit unions. This represents a loss of 19 Federal and State chartered institutions from the last reporting period.

NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one

term expires every two years. The Board is responsible for the management of the National Credit Union Administration, the NCUA Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program.

The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also operates the Asset Management and Assistance Center (formerly the Asset Liquidation Management Center) in Austin, Texas. Please refer to the NCUA organizational chart on the following page.

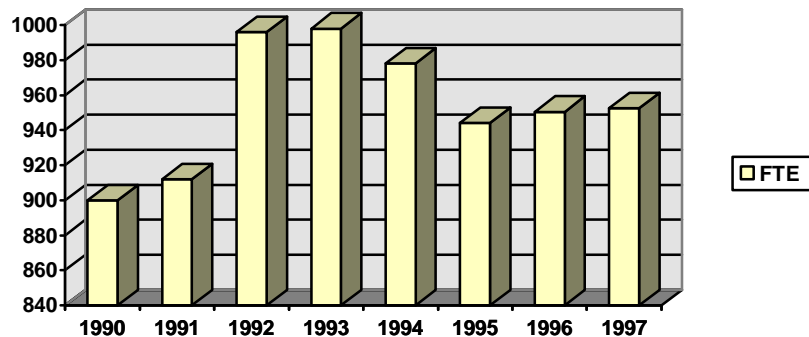
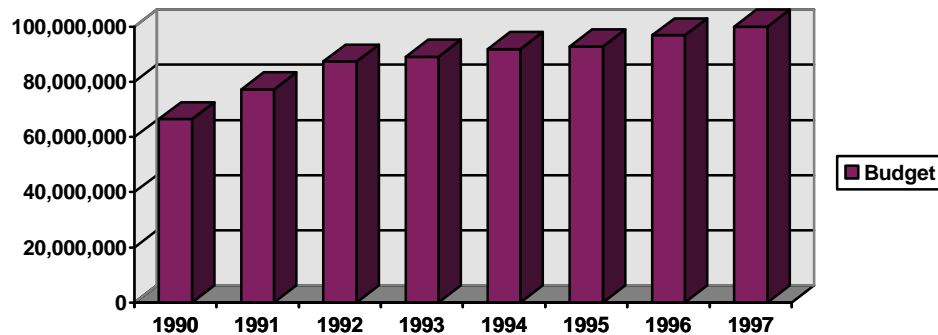
NCUA's operating budget for CY 1997 totals \$99.9 million, a \$3,080,039 increase over the CY 1996 budget of \$96.8 million. Full Time Equivalent (FTE) staff positions increased by 2 positions for a total of 952.5.

	1997	1996	Difference
LOCATION	FTE	FTE	FTE
Headquarters	199	198	1
Regional Offices	153	152	1
Field Examiners	600.5	600.5	0
Total Positions Authorized	952.5	950.5	2

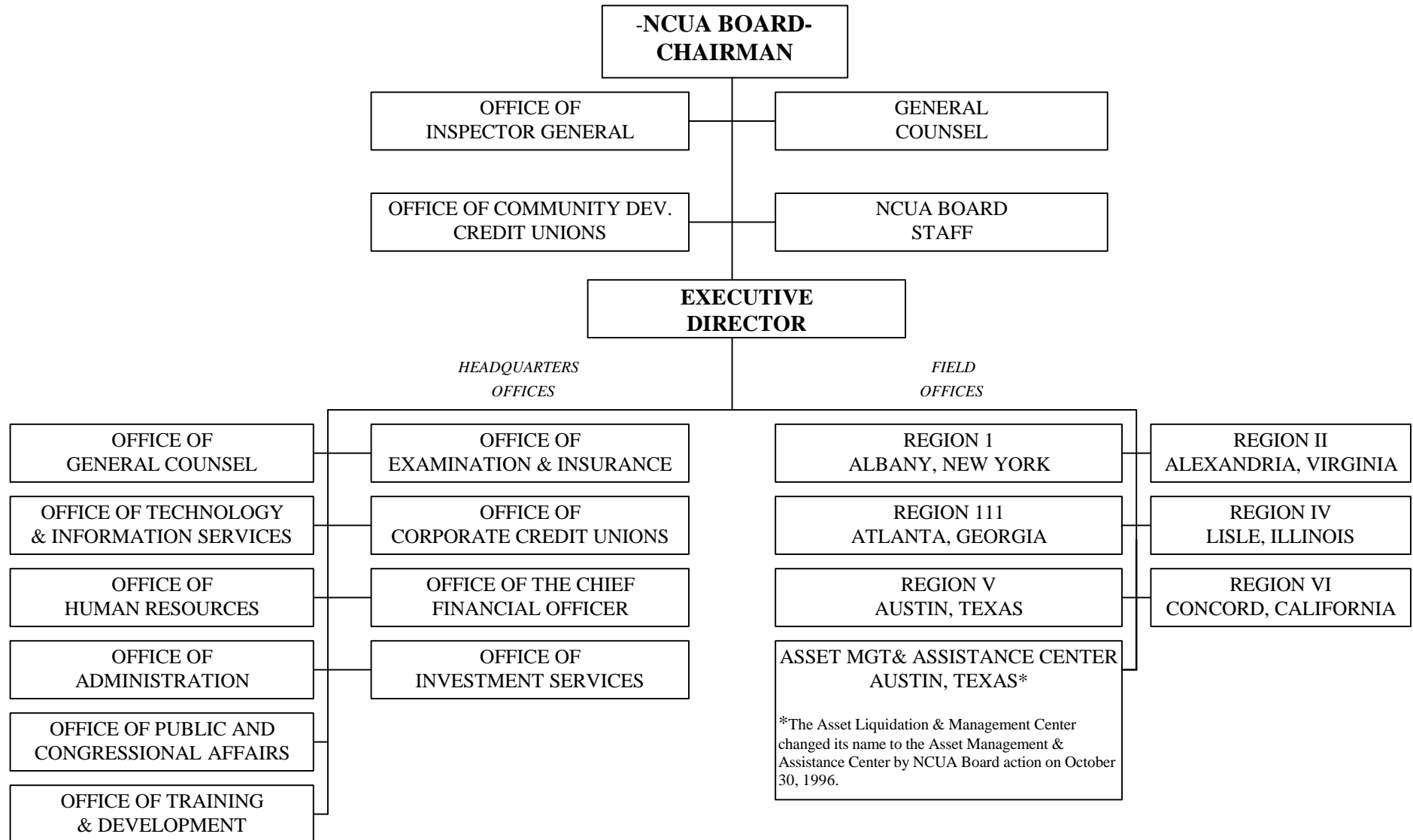
Over the past six reporting years, the agency's budget has increased from a 1990 low of \$66.5 million and 900 FTE's to a

1997 high of \$99.9 million and 952.5 FTE's. The following chart and graphs show the changes from year to year.

Year	Budget	FTE
1990	\$66,500,000	900
1991	\$77,200,000	912
1992	\$87,300,000	996
1993	\$89,000,000	998
1994	\$91,900,000	978
1995	\$92,700,000	944
1996	\$96,800,000	950.5
1997	\$99,900,000	952.5



NCUA ORGANIZATION CHART



NCUA HIGHLIGHTS*Follow-up on last Semiannual's Highlights***U.S. SUPREME COURT TO CONSIDER NCUA FIELD-OF-MEMBERSHIP EXPANSION POLICY**

On February 24, 1997, the U.S. Supreme Court agreed to hear the AT&T Family Credit Union case on the government's petition for a writ of *certiorari*. The NCUA and others will appeal the decision of the U.S. Court of Appeals for the District of Columbia Circuit. That ruling upheld the D.C. District Court's injunction that all members of a Federal credit union must share a *single common bond* of occupation with all other members. The Court restrained the NCUA from authorizing Federal credit unions from admitting members who do not share a single common bond of occupation. The ruling does not affect those credit unions whose field of membership is based on a geographic community.



This District Court ruling reversed NCUA's fourteen-year-old policy of authorizing credit unions to expand by adding other groups with common bonds unrelated to the common bond of the original credit union's "core" membership. On December 24, 1996, the Court of Appeals granted a partial stay of the District Court's injunction, and permitted credit unions to add new members only to existing groups. The agency filed a motion with the D.C. Court of Appeals for a full stay of the injunction while the case is pending before the High Court. Such a stay would permit credit unions to return to the status quo ante.

If the Supreme Court upholds the decision to limit credit union membership, it could have a deleterious effect on the agency and the credit unions it regulates. As explained in our last report, under a worst-case scenario, the ruling may be applied retroactively to divest members from the more than 3,000 credit unions that have expanded to include unrelated groups. These groups may not be able to sustain themselves as independent credit unions. This could cause the loss of needed credit union membership for substantial numbers of the American public, including people of small means. To date, one bill, H.R. 1151, has been introduced in the House of Representatives to amend the Federal Credit Union Act to overturn the effect of the current injunction.

BOARD MEMBER YOLANDA WHEAT TESTIFIES AT CONFIRMATION HEARING

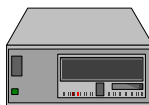
On March 6, 1997, the Senate Banking Committee held a confirmation hearing for Yolanda T. Wheat, who has been serving since April 1996 as the NCUA Board Member under a Presidential recess appointment. The Committee unanimously approved the appointment which must next be voted upon by the whole Senate. President Clinton nominated Mrs. Wheat to replace Bush appointee Robert Swan, whose holdover position was terminated by the President in August 1995. Mr. Swan contested the termination, which was upheld on appeal by the U.S. Court of Appeals for the District of Columbia Circuit on November 22, 1996.

BOARD VOTES ON FINAL CORPORATE REGULATION

On March 7, 1997, the NCUA Board voted to issue the final corporate regulation, 12 CFR Part 704, more than two years after the failure of Capital Corporate Federal Credit Union (CapCorp). The CapCorp failure led to Congressional demands for stricter rules to be placed on corporate credit union investments. The new rules, which become effective January 1998, are more lenient than those originally considered. Major changes to the rule address management, capital, investments, and asset/liability management, while the cornerstone of the regulation remains the requirement to manage interest rate risk. This is accomplished by establishment of a multi-tiered framework tied to risk. As risk levels rise, the regulation requires additional reserves and a more sophisticated infrastructure that includes a more knowledgeable staff, better reporting systems, and better internal controls. The Board is expected to take up the companion investment regulation, 12 CFR 703, later this year. The proposed investment regulation was issued in November 1995. The agency received 600 comments on the regulation that have now been reviewed and analyzed.

AGENCY CENTRAL DATA PROCESSING UPGRADED

During the first quarter of 1997, the agency completed its conversion from a Tandem operating system to a new



client/server system. All of the applications but one, previously running on the Tandem, have been migrated to the new system, called Oscar. The new system is a smaller and less costly central repository for agency information. The old system has been removed from the building and sold.

NCUA JOINS HUD TO ENCOURAGE LOW INCOME CREDIT UNION GROWTH

Following up on its "Serving the Underserved" Conference last year, the Office of Community Development Credit Unions (OCDCU) continues to charter and support low income designated credit unions. At the end of 1996, there were 346 low-income designated credit unions, up from 263 in 1995. In addition, after two years of discussion, the OCDCU announced the launching of an initiative with the Department of Housing and Urban Development (HUD) to charter on-site community development credit unions at public housing authorities across the country. HUD has identified public housing authorities in several cities to be candidates for a pilot project.

*New Highlights***TREASURY DEPARTMENT
LAUNCHES STUDY OF CREDIT
UNION REGULATION**

Pursuant to Congressional direction in the Omnibus FY 1997 Appropriations Act, the Department of the Treasury has begun to examine credit unions and NCUA's management of the Share Insurance Fund (NCUSIF); investment practices and other financial operations of the ten largest corporate credit unions; and to evaluate NCUA regulations as they pertain to the NCUSIF, corporates, and general safety and soundness issues. Of special concern is NCUA's financial treatment of the 1% deposit that credit unions make into the NCUSIF as a refundable asset. Treasury is to consult with the NCUA, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency about the study. A five-person Treasury working group began field work, visiting credit unions and conducting interviews with credit union management, after it received public comments on the effort. Congress ordered the study to be completed by September 30, 1997.

We will preview the study results and take the findings into consideration when revising our OIG strategic audit plan.

NCUA WEBSITE OPERATIONAL

NCUA has completed work on a colorful and user-friendly Home Page Internet world wide web site. The site provides useful

information about NCUA and credit unions. Browsers can access a directory of credit unions, credit union call reports, financial performance reports, Field of Membership lawsuit documents, and other regulatory information. Also, all NCUA Regional and the Central Offices are now connected to the Internet. The address is <http://www.ncua.gov>.

OIG semiannual reports and audit report summaries are also on the NCUA Home Page at <http://www.ncua.gov/ref/oig.semi.html>. We also have a hotlink to our home page on IGNet (Internet for the IG community) at <http://www.sbaonline.sba.gov/ignet/>.

**CAPITAL CORPORATE PCS
HOLDERS SUE NCUA**

The disappointed credit union holders of Preferred Capital Shares (PCS) in the defunct Capital Corporate Credit Union, liquidated in April 1995, have filed suit in the U.S. District Court for the Eastern District of Virginia. The PCS holders wish to recover \$20 million that they claim was lost because the NCUA, according to the complaint, acted arbitrarily and capriciously in its decision to liquidate the corporate credit union. NCUA has moved to dismiss the suit on the grounds that, *inter alia*, the shareholders have no standing to sue the agency and have failed to state a claim.

(The Court dismissed this suit on April 16, 1997, after the preparation of this report.)

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of the 1996 year-end call reports submitted by all federally insured credit unions for the period ending December 31, 1996, shows overall positive trends, with continued strong growth and favorable financial ratios. The continued lengthening of asset maturities is the only area of potential concern.

CAPITAL ACCUMULATION CONTINUES

Capital accumulated at the rate of 10.8% during the year, compared to 12.5% for 1995. The increase in overall capital is primarily due to the increase in undivided earnings, which expanded 13.6% or about \$2.5 million. The capital ratio increased for the tenth consecutive year to 11.4%, compared to 11.0 % at the end of 1995.

LOAN GROWTH INCREASES

Loans as a percentage of total assets increased significantly during 1996. Currently, loans constitute 65.4% of assets, compared to 62.7% at the end of last year. Total loans outstanding expanded 11.3% or \$21.6 billion, during 1996. First mortgage loans increased 16.1%, contributing an additional \$6.3 billion to the total credit union loan portfolio. Used auto loans increased 21.1%, an additional \$6.4 billion over last year.

CREDIT CARD BALANCES INCREASE

Credit card debt at credit unions has increased on average, between 14.5% and 16% per year, for the last three years.

Outstanding balances on credit union members' credit cards currently make up 8.1% of total outstanding loan balances, compared to 7.4% at the end of 1994.

LOAN DELINQUENCY REMAINS UNCHANGED

The total dollar amount of delinquent loans increased \$350 million. Delinquent loans as a percentage of total loans for year end 1996 was 1.0% and remains unchanged from last year's level. The number of credit union members filing for bankruptcy in 1996 increased 24.2% in the last 12 months. However, the number of members filing for bankruptcy represents less than 0.3% of all credit union members. The amount of loans subject to bankruptcy, about \$982 million, represents a little less than 0.5% of total loans outstanding.

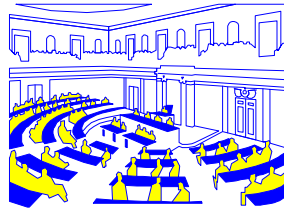
INVESTMENTS DECREASE

Investments decreased 2.3% during 1996, compared to a decline of 0.9% for 1995. Investments declined in order to fund growing loan demand. Investments as a percentage of assets also declined, from 32.8% to 30.1%, for the same period last year. As noted in our last report, the aggregate maturity structure of the investment portfolio is lengthening. During 1996, investments with maturities or repricing intervals under one year declined 10.5%, while investments with maturities between 1 and 3 years increased 8.6% and investments with maturities greater than 3 years increased 15.2%. This trend raises questions about a potential increase in interest rate risk as well as future liquidity problems.

OVERALL LIQUIDITY TRENDS

The increase in longer term investments and lending in 1996 has resulted in a higher proportion of long term assets. Long term assets (assets with maturities or repricing intervals greater than 3 years) currently represent 19.0% of total assets, compared to 17.5% at the end of 1995. The strong loan demand during 1996 could not be funded totally by an increase in shares. Loans outstanding increased 11.2% or \$21.6 billion

while shares grew 6.1% or \$16.5 billion. In order to meet their members' needs, credit unions disposed of investments and moderately increased their borrowing to make more. While the shift towards increased lending is positive, it is important to consider funding sources for future expansions in lending. The current trend to longer term investing may limit the finding options available to meet future loan demand.

LEGISLATIVE HIGHLIGHTS**LEGISLATION
INTRODUCED TO
AMEND FEDERAL
CREDIT UNION
ACT**

On March 20, 1997, eighteen Representatives co-sponsored bipartisan legislation to amend the Federal Credit Union Act to permit multiple common bond membership. The Credit Union Membership Access Act (H.R. 1151) provides: "This bill seeks to amend Section 109 of the Federal Credit Union Act --which reads 'Federal credit union membership shall be limited to groups having a common bond'--to read 'the membership of any Federal credit union shall be limited to one or more groups each of which have (within such group) a common bond.'" The bill would ratify the NCUA's 14 -year-old policy of permitting federal credit unions to add members with multiple common bonds other than those of the

original "core" members. The prospects of the bill are unknown because many in Congress have stated a preference for letting the Supreme Court rule on the matter before enacting legislation that may not be needed after the Court rules.

**REGULATORY RELIEF IN OMNIBUS
APPROPRIATIONS ACT OF 1996**

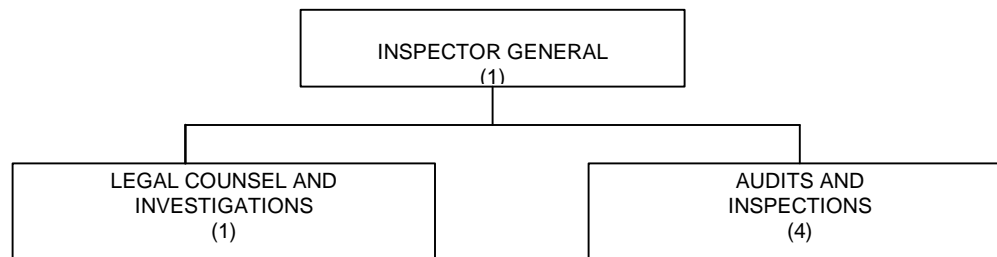
As noted in our last report, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (P.L. 104-208) was part of the \$600 billion omnibus appropriations act (the VA, HUD and Independent Agencies Appropriations Act (H.R. 3666)) signed by the President on September 30, 1996. This law contained a \$1 million addition to the NCUA Community Development Revolving Loan Program (CDRLP) for low-income credit unions, and directed the Treasury Department's study of credit unions.

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General,

an Assistant Inspector General for Investigations/ Counsel, an Assistant Inspector General for Audits (currently vacant), two Senior Auditors, and an Administrative Assistant.

OFFICE OF INSPECTOR GENERAL



The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Board has designated the Chairman to act as liaison with the Inspector General. The Inspector General is responsible for:

1. Conducting, supervising, and coordinating both audits and investigations of all NCUA program and operations;

2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;

3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency program; and

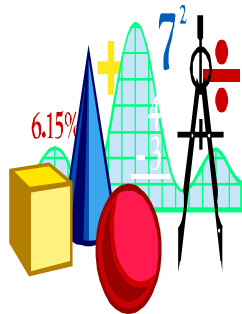
4. Keeping the NCUA Board apprised of significant findings and recommendations.

AUDIT ACTIVITY**AUDIT
REPORTS
ISSUED****Outstanding Audit
Recommendations--
Compensation System**

Audit Report No. COMP-A9401, on NCUA's compensation system, made 11 recommendations. Management accepted our first recommendation that a comprehensive study be commissioned to review NCUA's compensation system and to compare it to those of other agencies. The firm has completed its study.

The study concluded that NCUA compensation levels were "generally competitive" with other bank regulatory agencies, but that average base salaries and ranges for entry level examiners were somewhat below the others. NCUA's geographic adjustment factors were generally "well below" other agencies for locations where most agencies have an employment presence; nevertheless, the report found that adjusted pay levels were competitive. NCUA benefits were found to be "generally competitive with certain notable exceptions."

With the independent study complete, the agency responded to the OIG's specific recommendations. The agency agreed with six, disagreed with four, and partially agreed with one recommendation.

**AUDITS IN PROCESS****Audit of Goods and Services**

The audit objectives were: to determine agency compliance with NCUA procurement policies and procedures; to determine the effect of the NCUA procurement payment practices; to assess the need for procured contracts; and to assess the adequacy of procurement training. Field work has been completed and the report is being drafted.

**Program Audit on Flexibility of Credit
Union Examinations**

Our objective is to determine if examination procedures are being curtailed or expanded where needed to allow examiners to perform an efficient but effective examination. We are also reviewing the cost effectiveness of examination scheduling. We intend to accomplish this by evaluating: (1) NCUA and Regional Office guidance regarding examination procedure and scheduling flexibility; (2) examiner compliance with agency guidance; and (3) the management of examiner resources. Field work has been performed at three of the six regional offices and at the Office of Examination and Insurance, and the report is being drafted.

Peer Reviews

The Federal Housing Finance Board (FHFB) OIG issued its final report on the NCUA/OIG's compliance with Government Auditing Standards on March 31, 1997. FHFB/OIG found that this office is complying with all requirements. We performed and completed a peer review of the Securities and Exchange Commission

OIG. We issued our report on March 20, 1997.

Financial Audits

Our contract accounting firm, Deloitte & Touche, issued opinions on the 1996 financial statements of the NCUA Operating Fund, Share Insurance Fund, Central Liquidity Facility (CLF), and Community Development Revolving Loan Program (CDRLP.) The auditors found that the financial statements presented fairly the financial position of the agency's funds as of December 31, 1996. The firm issued its opinions on February 14, 1997. Although Deloitte and Touche does not express an overall opinion of the Funds' compliance with laws and regulations, its testing of compliance did not disclose any significant deviations. The auditors did not find any matters considered to be *material* weaknesses in their review of the Funds' internal control structures pertinent to financial reporting.

1. The NCUA Operating Fund was established as a revolving fund managed by the National Credit Union Administration Board for the purpose of providing administration and service to the Federal Credit Union System.

The auditors issued an **unqualified opinion** on the Operating Fund's financial statements. The Fund's total assets for 1996 were \$58.7 million, down from \$61.1 million in 1995.

The audit report made one recommendation concerning the agency's Home Purchase Program procedures for monitoring its assets in the Fund. Management agreed to consider the recommendation.

2. The NCUA Share Insurance Fund was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions up to \$100,000 per shareholder account.

The auditors issued an **unqualified opinion** on the Share Insurance Fund's financial statements. The Fund's total assets for 1996 were \$3.5 billion, down from \$3.4 billion in 1995.

3. The Central Liquidity Facility was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions.

The auditors issued an **unqualified opinion** on the CLF's financial statements. The CLF's total assets for 1996 were \$734,472, up from \$ 710,468 in 1995.

4. The Community Development Revolving Loan Program's purpose is to stimulate economic activities in the communities served by low-income credit unions, which will result in increased income, ownership and employment opportunities for low-wealth residents and other economic growth.

The auditors issued an **unqualified opinion** on the Program's financial statements. The CDRLP's total assets for 1996 were \$7.8 million, up from \$6.7 million in 1995.

The auditors recommended that the CDRLP consider modifying the current monthly financial reporting package to include a report of scheduled loan portfolio principal and interest payments. Management will consider the recommendation.

The auditors made three additional recommendations applicable to all four funds. The auditors recommended that the agency initiate a formal organizational risk statement or information security strategy. In addition, they recommended that the NCUA formally document and communicate its information strategy and development and acquisition policies. Finally, it was noted that the agency should consider preparing a Statement of Cash Flows on a monthly basis.

Management agreed with all the recommendations.

Other Activities

The Senior Auditors completed a revision of the OIG's Audit Manual and Administrative Manual.



INVESTIGATION ACTIVITY

Investigative matters pursued by this office are generally initiated as a result of allegations, or because of potential findings of fraud, waste, abuse, corruption, or mismanagement. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, Federal criminal law, and other regulations and statutes pertaining to the activities of NCUA employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.



The OIG also receives complaints from credit union members that involve program responsibilities of NCUA employees. These complaints are usually examined to determine whether there is any allegation of NCUA employee misconduct and, if not, then the complaint is referred to the appropriate regional office or closed if contact with the regional office indicates that the complaint has been appropriately handled.

Investigative Contacts

Contacts/inquiries/investigations carried forward from previous reporting period	7
Contacts initiated during reporting period	5
<i>Total contacts during reporting period</i>	12
<u>Less:</u>	
Contacts closed for lack of verifiable evidence or referred to another office	8
Reports issued and matter closed	1
Reports issued and awaiting agency action	1
<i>Pending contacts (preliminary inquiries)</i>	3

Report on Alleged Credit Union Retaliation

During the reporting period, we issued our first report pursuant to a referral under NCUA's Interpretive Ruling and Policy Statement (IRPS) 95-1, "Guidelines for the Supervisory Review Committee." This IRPS contains a provision requiring the agency to refer to the IG any allegations of retaliation from a credit union concerning the agency's assignment of CAMEL ratings. We completed our investigation of this referral and determined that neither the NCUA Examiners nor the Regional Director concerned had retaliated against the complaining credit union.

Ethics Investigation

We investigated an allegation that an employee who was seeking employment with a prohibited source had engaged in activity that constituted a conflict of interest under the Standards of Conduct and 18 USC 208 of the criminal statutes. We found that the employee had violated the Standards and we made some recommendations to management for disciplinary and corrective action.



Security Files Inspection

We reported on our review of the Central Office's personnel security files in R9-9701, issued January 29, 1997. This inspection reviewed the security files system and suitability adjudication procedures in the NCUA's Office of Human Resources (OHR). We found that overall, the OHR was carefully designating positions according to risk, and

adjudicating suitability based on investigative reports received from the Office of Personnel Management (OPM). We recommended only minor changes to the system, including: 1) that the OHR retain copies of the OPM reports for a one or two year period if they contained unfavorable information; and 2) that the Employee Relations Specialist in charge of the operation compose a more detailed statement of the reasons why employees for whom OPM has noted actionable issues are retained. The agency agreed with all recommendations.

Proactive Investigations

We intend to complete our proactive investigation of workers' compensation (Federal Employee Compensation Act) payments within the agency. This proactive investigation was initiated to determine whether there is any fraud in the system and if NCUA's internal controls are sufficient to prevent potential fraudulent activity in employee receipt of these Federal payments.

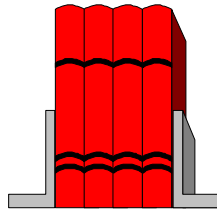
Other Investigative Activities

We initiated an investigative files peer review this year with another Executive Council on Integrity and Efficiency (ECIE) Office of Inspector General. Unlike an audit peer review, this investigative review was informal and conducted to confirm that our processing of investigative complaints and issuing of reports generally complied with standard practices in the ECIE community. We expect an oral report this Spring.

We have also revised and updated our Investigations Guide for 1997.

LEGISLATIVE AND REGULATORY REVIEWS

The OIG continues to review proposed legislation and regulations, as well as proposed agency instructions and other policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste, and abuse.



During the reporting period, the OIG reviewed eight regulatory matters, five instructions, and twelve other official agency issuances. We commented on fifteen of these.

We assisted in drafting a new agency Instruction on Cooperating with Investigators. The Instruction, issued on December 31, 1996, advises all NCUA employees of their legal obligations to cooperate with OIG, EEO, and other investigations being conducted in the agency.

We were gratified to comment on the agency's draft proposed Debarment and Suspension Instruction, an effort that arose from an OIG recommendation to implement procedures for sanctioning contractors. These will generally mirror debarment and suspension regulations found in agencies that follow the Federal Acquisition Regulation (FAR), which applies only to appropriated fund agencies. The NCUA Instruction will

enable the agency to sanction contractors for misconduct by debarring or suspending them under its own program. The Instruction is awaiting Board review.

We commented on the Administrative Assessments regulation, 12 CFR Part 741.6, and questioned the agency's authority to enact these fees for late and inaccurate 5300 reports.

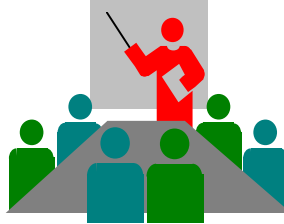
We made several comments on the revision of Chapter 17 of the Personnel Manual on Employee Suitability, which was in preparation during our Security Files review (see above). We suggested that the manual treat separately computer security and personnel security information. We also suggested that the manual differentiate between national security designations and designations of other sensitive information.

We commented on the Board decision to expand the mission and change the name of the Asset Liquidation Management Center. We recommended that the newly designated Asset Management and Assistance Center retain a core number of Federal employees, along with contractors, who are able to supervise other personnel. We also suggested that the agency review the Electronic Data Processing requirements for the Center and consider whether the newly acquired SAP could be extended to encompass AMAC transactions.

OTHER OIG ACTIVITIES**Staff Training and Development**

The Inspector General continued to participate in the Financial Institutions Regulatory Committee of the Executive Council on Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve, the Department of the Treasury, the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Securities and Exchange Commission, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits, investigations, legislative, and regulatory matters; and to seek uniform approaches to handling similar issues.

The IG participated in the annual PCIE/ECIE Conference and the annual Joint Financial Management Improvement Program Conference, both held in the Washington metropolitan area. The Inspector General



and the AIGI attended two PCIE Forums on, "The IG Community Confronts Change," and "the Office of the Future."

The audit staff has completed the required continuing education requirements for 1996. The Assistant Inspector General for Audits participated in the Federal Audit Executive Council Conference in Gettysburg, PA. One Senior Auditor received NCUA training on SAP, the agency's new administrative and accounting software system. Both Senior Auditors attended the Institute for Internal Auditors' Internal Auditing in Government Conference.

One Senior Auditor attended two sessions of the Georgia Society for CPA's on "Ethics in Auditing" and "Attracting and Retaining the Best and Brightest Employees."

The AIGI participated in the annual Directors of Investigation Conference at the Federal Law Enforcement Training Center in Brunswick, Georgia.

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		Number of Reports	Questioned Costs	Unsupported Costs
A.	For which no management decision had been made by the start of the reporting period.	0	\$ 0	\$ 0
B.	Which were issued during the reporting period.	0	0	0
	Subtotals (A + B)	0	0	0
C.	For which management decision was made during the reporting period.	0	0	0
	(i) dollar value of disallowed costs	0	0	0
	(ii) dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period.	0	0	0
E.	Reports for which no management decision was made within six months of issuance.	0	0	0

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable.

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.

TABLE II

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE			
		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	\$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	0
	(ii) Dollar value of recommendations not agreed to by management.	N/A	0
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

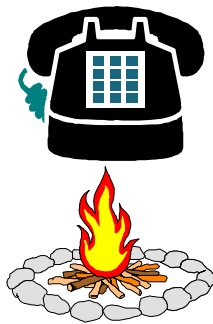
Recommendations that "Funds to be Put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.

TABLE III

SUMMARY OF OIG ACTIVITY OCTOBER 1, 1996 THROUGH MARCH 31, 1997 (FOUR PARTS)		
PART I -- AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
R9-97-02	Financial Audit: NCUA Operations Fund	4-9-97
R9-97-03	Financial Audit: Share Insurance Fund	4-9-97
R9-97-04	Financial Audit: Central Liquidity Fund	4-9-97
R9-97-05	Financial Audit: Community Development Revolving Loan Program	4-9-97
PART II -- INSPECTION REPORT ISSUED		
Report Number	Title	Date Issued
R9-97-01	Central Office Security Files	1-29-97
PART III -- AUDITS IN PROCESS OR PLANNED (as of March 31, 1997)		
	Goods and Services Procurement Audit	
	Credit Union Examination Flexibility Audit	
PART IV -- REVIEWS OF REGULATIONS		
Regulations	Title	
12 CFR 741.6	Administrative Assessments	

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